

**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2018-358-WS**

IN RE:    Verified Application of Carolina    ) Water Service, Inc. for Approval    ) of Annual Rate Adjustment        ) Mechanisms and Petition for an       ) Accounting Order to Defer           ) Expenses                                    )	<b>AMENDED VERIFIED          APPLICATION FOR APPROVAL          OF ANNUAL RATE ADJUSTMENT          MECHANISMS AND PETITION          FOR ACCOUNTING ORDER</b>
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Blue Granite Water Company (“Applicant,” “BGWC” or “the Company”), formerly known as Carolina Water Service, Inc.,<sup>1</sup> hereby applies, pursuant S.C. Code Ann. §§ 58-5-210, 58-5-220 and 58-5-240, S.C. Code Ann. Regs. 103-503, 103-703, 103-823 and 103-825, and all other applicable statutes and regulations, to the Public Service Commission of South Carolina (the “Commission”) for approval of annual rate adjustment mechanisms for purchased water and wastewater treatment expenses, as shown on Exhibits E, F, and G, and for authority to continue to defer the Company’s purchased water and wastewater treatment expenses (above or below the amounts reflected in base rates) until such expenses are reflected in rates.

The requested relief included in this Amended Verified Application does not involve a change to the Company’s entire rate structure, nor does the requested relief involve a change in any Commission rules, regulations, or policies. However, this Amended Verified Application does

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<sup>1</sup> On November 14, 2018, in Docket No. 2018-365-WS, the Company filed a request to change its name from Carolina Water Service, Inc. to Blue Granite Water Company. On December 4, 2018, the Company filed with the Secretaries of State of South Carolina and Delaware amended certificates of authority to operate under the new name. The Company has also received updated permits from the South Carolina Department of Health and Environmental Control. Further, as directed by the Commission, notices have been issued informing customers of the name change, and customer bills have been updated to reflect the new name and logo. As acknowledged in the Company’s letter filed with this Commission on February 4, 2019, the Company submits that it has fulfilled the requirements of Commission Order No. 2018-791, and notes that no opposition to the Company’s name change request has been filed with the Commission. For these reasons, this Amended Application is styled as a request on behalf of Blue Granite Water Company.

request a change to rates. Accordingly, Applicant therefore requests that the Commission allow Applicant's proposal to be put into effect upon notice and hearing, consistent with S.C. Code Ann. § 58-5-240. Further, given the ongoing nature of the proposed annual rate adjustment mechanisms and Applicant's desire to implement the mechanisms in the second quarter of 2019, Applicant respectfully requests the Commission set this matter for hearing the week of May 20, 2019 and take final action on this Amended Verified Application by June 14, 2019.

In support of this Amended Verified Application, Applicant would show the following:

1. Applicant's Corporate and Regulatory Status. Applicant is a corporation organized and existing under the laws of the State of Delaware and is authorized to do business in the State of South Carolina. Applicant is a public utility, as defined by S.C. Code Ann. § 58-5-10(4), providing water and wastewater services to the public in certain areas of South Carolina. Applicant's current rates and charges were authorized by Commission Order No. 2018-802 issued January 25, 2019, in Docket No. 2017-292-WS.

Applicant operates a potable water production, treatment, storage, transmission and distribution system ("water system") and a sanitary wastewater collection, treatment and effluent disposal system ("wastewater system"), which are located in and serve various parts of the State of South Carolina. In addition to operating its own water and wastewater systems, Applicant relies upon certain purchased water contracts with third party bulk water suppliers to meet its customers' need for water and to fulfill its obligation to serve. Applicant also relies on third parties to provide purchased wholesale wastewater treatment services through satellite sewer system agreements, as a result of BGWC system interconnections with regional sewer providers that have been designated as the applicable 208 Water Quality Management Plan management authority.<sup>2</sup>

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<sup>2</sup> See *Application of Carolina Water Service, Inc., for Approval of a Satellite Sewer System Agreement between Carolina Water Service, Inc. and City of Columbia*, Docket No. 2018-256-S.

2. Relief Requested. Pursuant to S.C. Code Ann. § 58-5-240 and all applicable rules and regulations of the Commission, Applicant requests the Commission approve annual rate adjustment mechanisms for certain changes to its purchased water and wastewater treatment expenses. More specifically, Applicant seeks approval for annual rate adjustment mechanisms to capture changes in such expenses that result from changes in rates imposed by its wholesale purchased water and wastewater treatment providers. Applicant's proposed rate adjustment mechanisms are shown on Exhibits E (relating to Applicant's water service territory 1), F (relating to Applicant's water service territory 2), and G (relating to Applicant's wastewater service territory). As shown on Exhibits E, F, and G, these proposed rate adjustments would apply to "Distribution Only" water customers and to all wastewater customers. As also shown on Exhibits E, F, and G, the purchased water and wastewater treatment rate adjustments would be allocated to customers in the same manner as such expenses are allocated to customers in Applicant's base rates. The proposed annual water rate adjustment mechanisms only affect the commodity charge per 1,000 gallons and do not impact the applicable Base Facilities Charges.

As discussed in more detail below, Applicant also requests that the Commission permit the Company to recover previously deferred purchased water and wastewater treatment expense amounts for the period of March 2018 to January 2019. The proposed changes to the Company's schedule of rates and charges to reflect the Amended Verified Application are shown on Exhibit E, F, and G.

Finally, Applicant requests the Commission authorize it to continue to defer changes in its purchased water and wastewater treatment expenses attributable to changes in third party provider rates, on an interim basis (above or below the amounts reflected in base rates), until such expenses are reflected in rates.

3. Proposed Rate Adjustment Mechanisms. Applicant proposes to adjust its water and wastewater rates annually, via the proposed Annual Purchased Water and Wastewater Rate Adjustment Mechanisms (Exhibits E, F, and G), to reflect changes in the Company's actual purchased water and wastewater treatment expenses resulting from changes in third party providers' rates, using consumption and customer data from the preceding calendar year with known and measurable changes at the time of filing, net of the amounts of purchased water and wastewater expenses reflected in its base rates and without carrying or financing or other markup costs. Any over or under recovery related to the difference between the revenues earned and the actual purchased water and wastewater treatment expenses resulting from changes in third party providers' rates will be reconciled and charged or credited to customers, as appropriate, in the next Annual Purchased Water and Wastewater Rate Adjustment filing.

In 2019, the first year of implementation of the rate adjustment mechanisms, Applicant also proposes to include previously deferred purchased water and wastewater treatment expense amounts for the period of March 2018 to January 2019. These deferred amounts are included in the proposed rate adjustments shown on Exhibits A, B, and C. The Company will continue to track the deferred purchased water and wastewater treatment expense amounts monthly. In the next Annual Purchased Water and Wastewater Rate Adjustment, the actual revenues the Company earned from the portion of the commodity rate designed to recover the deferral balance(s) amortization expense will be calculated and subject to audit. Any over or under recovery related to the difference between the revenues earned and the deferral balance amounts will be reconciled and applied to the deferral balance in the next Annual Purchased Water and Wastewater Rate Adjustment filing. The portion of the commodity rate designed to recover the deferral balance(s) amortization expense will then be reset to recover the new deferral balance adjusted for any over or under recovery applied.

The requested rate adjustment mechanisms for purchased water and wastewater treatment expenses are proposed to be implemented as follows:

- By March 1 of each year (beginning March 1, 2020), Applicant will file its proposed rate adjustments for purchased water and wastewater treatment expenses, with documentation showing changes in its third party providers' rates, and the impact of such changes in wholesale rates on Applicant's purchased water and wastewater treatment expenses using consumption and customer data from the preceding calendar year with known and measurable changes at the time of filing, along with the amounts of such expenses reflected in Applicant's then-existing base rates. Applicant also will provide its proposed water and wastewater treatment revenues and the effects of the proposed rate adjustments on "Distribution Only" water rates and wastewater rates;
- By April 15 of each year, the Commission and the Office of Regulatory Staff ("ORS") will complete their respective review and audit of Applicant's proposed rate adjustments, including reconciliations;
- By April 30 of each year, the Commission will issue an order on the proposed rate adjustments
- By May 1 of each year, Applicant will provide 30-day notice of the approved rate adjustments to its customers; and
- By June 1 of each year, Applicant will implement the approved rate adjustments.

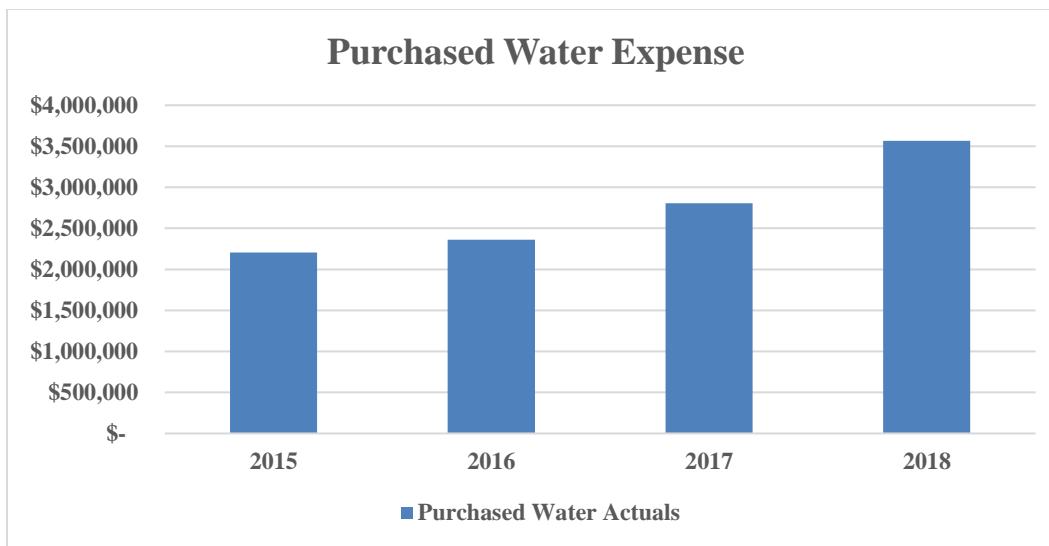
4. Need and Justification for Requested Relief. By Order No. 2018-345(A) in Docket No. 2017-292-WS, the Commission approved recovery of the costs of the Company's purchased water and wastewater treatment expenses incurred in the course of providing service. To implement this cost recovery, the Commission approved a regulatory deferral account, authorizing

BGWC to record and monitor all rate increases from third party providers for water supply and wastewater treatment. The Commission authorized BGWC to seek recovery of the balance of the deferred account, subject to audit by ORS and approval by the Commission, in a subsequent rate case.

In this Amended Verified Application, in lieu of continued deferral of such expenses, Applicant is seeking timely cost recovery of its purchased water and wastewater treatment expenses through annual periodic rate adjustment mechanisms, along with authorization to defer such expenses caused by changes in third party provider rates on an interim basis (above or below the amounts reflected in base rates), until such expenses are reflected in rates.

Applicant purchases water from approximately 13 third party providers, a number which may increase in the future. Applicant purchases wastewater treatment services from 6 third party providers, a number which may also increase in the future. Since mid-2017, Applicant has experienced wholesale rate increases from eight of its purchased water providers and has experienced wholesale rate increases from two of its wastewater treatment providers. Collectively, these ten wholesale rate increases amount to over \$1,000,000 annually.

The following charts illustrate the magnitude of the changes in purchased water and wastewater treatment expenses, respectively, Applicant has experienced in recent years. Most of these changes are the result of wholesale rate changes instituted by the wholesale providers.



As the foregoing demonstrates, Applicant's purchased water and wastewater treatment expenses are and/or will be recurring, significant and changing. In addition, because the purchased water and wastewater treatment expenses are incurred as a result of contracts with and rates charged by unrelated third parties, the expenses are not controlled by Applicant.

Applicant believes the proposed rate adjustment mechanisms (and interim deferred accounting authorizations) are reasonable, necessary and in the public interest, and represent good

regulatory policy. The requested relief will assist Applicant in providing reasonable and adequate service to its customers, recovering its actual purchased water and wastewater treatment expenses on a timely basis, eliminating or deferring the need for new rate cases due to purchased service expenses, and preserving its financial integrity.

The proposed purchased water and purchased wastewater rate adjustment mechanisms will function to track changes in the wholesale rates Applicant pays for purchased water and purchased sewer expenses, whether such tracking results in a charge or a credit to customers. Accordingly, the purchased water and wastewater rate adjustment mechanisms will also benefit customers by allowing Applicant to reflect in its retail rates the actual wholesale water and wastewater rates it pays to third party providers, whether those rates increase or decrease. The proposed rate adjustment mechanisms will also send more accurate price signals to customers.

5. Commission Precedent for Rate Adjustment Mechanisms for Purchased Wholesale Service Expenses. Rate adjustment mechanisms for purchased services expenses are prevalent in South Carolina. See, for example, *In Re Application of Kiawah Island Utility, Inc.*, Docket No. 2001-164-W/S; Order No. 2002-285 (PSCSC; Apr. 18, 2002), where the Commission approved a passthrough mechanism for the utility with respect to its purchased water costs, stating: “With the passthrough mechanism as proposed by the Company, the potable rate to the customers could be adjusted, with Commission oversight, on a timely basis and eliminate the need for a rate application to compensate for this expense.” Likewise, in Order No. 2014-48, in Docket No. 2013-380-S (PSCSC; Jan. 14, 2014), the Commission permitted Ocean Lakes Utility, L.P. to “pass through, without markup, the increases in wholesale wastewater rates charged by Grand Strand Water & Sewer Authority over a two-year period as requested.” *See also, In Re Application of Utilities Services of South Carolina, Inc.*, Docket No. 2005-217-WS; Order No. 2013-32 (PSCSC; Jan. 16, 2013); *In Re Lisa Lochbaum et al v. Utilities Services of South Carolina, Inc.*, Docket Nos.



2009-39-W, 2009-75-W, 2009-101-W, 2009-102-W (PSCSC; Sept. 3, 2009); *In Re Application of Kiawah Island Utility, Inc.*, Docket No. 2001-164-W/S; Order No. 2006-54 (PSCSC; Jan. 24, 2006); *In Re Dowd Water Systems, Inc.*, Docket No. 2003-7-W; Order No. 2003-520 (PSCSC; Aug. 29, 2003).

6. Supporting Documentation. Applicant has prepared certain documentation in support of its Amended Verified Application, attached hereto and incorporated herein by this reference as Exhibit D. This documentation includes the following:

- a. Current and historical purchased water expenses, including purchased water expenses reflected in current base rates (Schedule 1);
- b. Current and historical purchased wastewater treatment expenses, including purchased wastewater expenses reflected in current base rates (Schedule 2);
- c. Current deferred purchased water expenses (Schedule 3);
- d. Current deferred wastewater treatment expenses (Schedule 4).

In addition, Applicant's Annual Report for the last period is on file with the Commission, including Applicant's financial statements. Applicant's current rate schedules, approved in Order No. 2018-802, are also on file with the Commission, as are a performance bond to satisfy the requirements of S.C. Code Ann. § 58-5-720 and a map depicting Applicant's current service area.

The documentation submitted herewith, and references to documents on file with the Commission, are offered to comply with Commission Rules and to provide information useful to the Commission in considering the reasonableness of the proposed purchased water and wastewater treatment adjustment mechanisms.

7. Recovery of Deferred Expenses. In this Amended Application, pursuant to S.C. Code Ann. § 58-5-240(A) and S.C. Code Ann. Regs. S.C. Code Regs. 103-503, 103-703, 103-512.4(A) and 103-712.4(A), Applicant also requests that the Commission permit the Company to recover previously deferred purchased water and wastewater treatment expense amounts for the

period of March 2018 to January 2019. By Order No. 2015-876 in Docket No. 2015-199-WS, the Commission approved the Company's recovery of the cost of its purchased water and sewer costs as an expense incurred in the course of providing service. Such recovery has the benefit of stabilizing the rates associated with water and sewer service, eliminating delays associated with the monthly apportionment of third-party provider charges, and streamlining customer billing. To implement this cost recovery, the Commission approved two regulatory deferral accounts authorizing the Company 1) to record and monitor all rate increases from third-party providers for water supply and sewer treatment; and 2) to recover non-revenue water expenses. The Commission authorized the Company to seek recovery of the balance of these deferred accounts, subject to audit by ORS and approval by the Commission in a subsequent rate case. The Company submits that permitting timely updates to rates to reflect changes to its purchased water and wastewater treatment expenses benefits customers by preventing rate shock that may otherwise occur as these expenses accumulate. The proposed changes to the Company's schedule of rates and charges to reflect the Amended Verified Application are shown on Exhibit E, F, and G.

For the reasons expressed above, the Company also requests authorization to continue to defer unrecovered purchased water and sewer treatment services in the accounts authorized by the Commission in Order No. 2015-876.

7. Representation. All communications or inquiries regarding this Amended Verified Application should be directed as set forth below:

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WHEREFORE, Applicant respectfully requests that the Commission take the following action by June 14, 2019:

A. Approve the proposed purchased water expense rate adjustment mechanisms and the proposed 2019 rate adjustments contained therein (Exhibits D and E);

B. Approve the proposed wastewater treatment expense rate adjustment mechanism and the proposed 2019 rate adjustment contained therein (Exhibit F);

C. Approve Applicant's request to recover previously deferred purchased water and wastewater treatment expense amounts for the period of March 2018 to January 2019, as set forth in the updated schedules of rates and charges (Exhibit E, F, and G);

D. Approve Applicant's request for authority to continue deferring its purchased water and wastewater treatment expenses (above or below the amounts reflected in base rates) caused by changes in third party provider rates, until such expenses are reflected in rates;

E. Approve Applicant's proposal and schedule for implementing the water and wastewater rate adjustment mechanisms; and

F. For such other relief as this Commission deems just and proper.

Dated this 21st day of February, 2019.

s/Frank R. Ellerbe, III  
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Attorneys for Blue Granite Water Company

STATE OF SOUTH CAROLINA    )  
   )  
 COUNTY OF RICHLAND         )

AFFIDAVIT

Michael R. Cartin, being first duly sworn, deposes and says that he is the Director of External Affairs and Strategy for Blue Granite Water Company, formerly known as Carolina Water Service, Inc.; that as such he has read said Verified Amended Application and knows the contents thereof; and that the statements and representations contained in said Verified Amended Application are true to his best knowledge and belief.



Michael R. Cartin  
 Director, External Affairs and Strategy  
 Blue Granite Water Company

Sworn and subscribed to before me  
 this 21<sup>st</sup> day of February, 2019.



Notary Public for the State of South Carolina  
 My Commission Expires: 2/1/2022

